

SOUTH CAROLINA PUBLIC SERVICE COMMISSION
DOCKET NO. 2002-001-E
DIRECT TESTIMONY OF CAROLINA POWER & LIGHT COMPANY

WITNESS RONALD R. PENNY

1 Q. Please state your name, address, and position with Carolina Power & Light
2 Company.

3 A. My name is Ronald R. Penny and my business address is 412 S. Wilmington
4 Street, Raleigh, North Carolina. My position is Director – Regulatory Services,
5 Progress Energy Service Company.

6 Q. Please describe your educational background and professional experience.

7 A. I obtained a Bachelor of Science Degree in Electrical Engineering from North
8 Carolina State University and then joined the Company's Rates and Service
9 Practices Department as a Research Analyst in 1975. Since that time, I have held
10 various positions in the Rates, Engineering, Treasury and Accounting departments
11 at CP&L. During this time period, I have been involved in numerous retail and
12 wholesale rate proceedings. I have sponsored testimony before this Commission
13 as well as the Federal Energy Regulatory Commission and the North Carolina
14 Utilities Commission.

15 Q. What is the purpose of your testimony?

16 A. The purpose of my testimony is to review the Company's fuel cost and revenue
17 collection for the period January 2001 through December 2001, present projected
18 fuel cost for the period April 1, 2002 through March 31, 2003, and recommend a

1 fuel factor to be effective April 1, 2002.

2 Q. Please explain Penny Exhibit No. 1.

3 A. Penny Exhibit No. 1 is a summary of CP&L's actual system fuel cost and
4 kilowatt-hour sales experienced during the period January 2001 through
5 December 2001. The exhibit first itemizes fossil fuel costs by type of generation
6 resource -- coal, oil, or gas -- and indicates the type of generating unit which
7 consumed the fuel. The total fossil fuel expense is shown on line 9.

8 The fossil fuel expense is added to emission allowance expense on line 10,
9 nuclear fuel expense on line 11 and the net purchased power expense shown on
10 line 14 to provide the total system fuel expense as shown on line 15. Line 16 is a
11 summary of net system kilowatt-hour sales associated with the incurred fuel
12 expense. Line 17 indicates the system cost of fuel per kilowatt-hour sold each
13 month.

14 Q. How did the fuel revenue billings compare to the actual fuel costs incurred
15 during the historical period January 2001 through December 2001?

16 A. Penny Exhibit No. 2 is a monthly comparison of the revenues billed South
17 Carolina retail customers through the base fuel component of our approved
18 general rates to the actual fuel costs attributable to those sales. Lines 6 and 14
19 represent the monthly collection of fuel cost with the corresponding revenue
20 factors approved by the Commission. Lines 8 and 16 represent the cumulative
21 recovery of our fuel expense during this 12-month period. Through December
22 2001, the Company was \$10.3 million under-recovered in fuel expense as shown

1 on line 16 of the exhibit.

2 Q. Please explain Penny Exhibit No. 3.

3 A. Penny Exhibit No. 3 demonstrates the calculation of a base fuel component of
4 1.490¢/kWh for the 12-month period April 2002 through March 2003, consisting
5 of a component for recovery of projected fuel expense for this period and a
6 component to collect the projected under-recovery at March 2002. I am projecting
7 the eligible under-recovery to be \$4.9 million at March 2002. The net fuel factor
8 calculated on this exhibit is performed in accordance with the fuel statute, which
9 requires the Company to submit this information to the Commission.

10 Q. Has the under-recovery reflected in your Exhibit No. 3 been adjusted to
11 reflect the spread of under-recovery collection approved by the Commission
12 in Docket No. 2000-001-E?

13 A. Yes it has. I have removed \$2.2 million from the projected under-recovery at
14 March 2002 to reflect the proper amount of under-recovery eligible for recovery in
15 this proceeding. This fuel case is the third of four fuel cases we are collecting the
16 \$8.8 million under-recovery originally spread in Docket 2000-001-E. Recovery of
17 the final \$2.2 million will be reflected in our next fuel case.

18 Q. Please explain Penny Exhibit No. 4.

19 A. Penny Exhibit No. 4 is a continuation of my Exhibit No. 2 showing projected
20 costs and revenues, by month, for the period January 2002 through March 2003
21 and is based on the most current fuel cost information available. The projection
22 assumes scheduled maintenance and refueling outages for certain of our nuclear

1 generating units based on the latest plan and includes forced outage rates for fossil
2 units based upon historical outage data. The exhibit continues the use of the
3 current base fuel component of 1.517¢/kWh for the January through March 2002
4 period and a base fuel component of 1.490¢/kWh for the period April 2002
5 though March 2003.

6 Q. What fuel factor are you recommending in this case?

7 A. CP&L is asking the Commission to approve a fuel factor of ^{1.485¢}~~1.490¢~~/kWh in this
8 case to recover the eligible under-recovery at March 2002 and projected cost for
9 the next period.

10 Q. Does that conclude your testimony?

11 A. Yes, it does.

1 Q [Mr. Austin] Mr. Penny, please give us a summary of your
2 testimony.

3 A The purpose of my testimony today is to present the
4 Company's fuel clause information for the historic period
5 calendar year 2001 and for the projected period April
6 2002 through March 2003, which represents the effective
7 period for rates established in this case. I'm asking
8 this Commission for permission to decrease the fuel
9 factor for CP&L from 1.517 cents per kilowatt-hour to
10 1.485 cents per kilowatt-hour for the next 12-month
11 period.

12 This concludes my summary.

13 A Thank you, Mr. Penny.

14 MR. AUSTIN: We tender the witness,
15 Mr. Chairman.

16 CHAIRMAN SAUNDERS: Mr. Elam?

17 MR. ELAM: Thank you, Mr. Chairman.

18 **CROSS-EXAMINATION BY MR. ELAM:**

19 Q Good morning, Mr. Penny.

20 A Good morning.

21 Q I notice in your Exhibit 1, there you set out the
22 purchased power for each month of 2001, is that correct?

23 A Yes.

24 Q And in some months there was a fair amount of purchased

1 power for CP&L?

2 A Yes.

3 Q And I guess that was done due to some of the refueling at
4 the nuclear stations or —

5 A That would be one reason, yes.

6 Q Okay. In that purchase, when you purchase power from a
7 marketer or wherever you purchase power from, is it fair
8 to say that a portion of that power is related to
9 capacity costs and a portion is related to fuel costs,
10 correct?

11 A Oftentimes that is correct, yes.

12 Q Okay. For the purchase power costs that you have in your
13 exhibit here, for all the purchase power costs, did you
14 get a statement from who you bought it from about what
15 portion is related to capacity and what portion is
16 related to fuel?

17 A Yes.

18 Q For all of the power purchases?

19 A Yes. For —the invoice would show how it's broken down,
20 yes.

21 Q Okay. Are marketers getting better about using that sort
22 of invoice? I noticed in your North Carolina fuel
23 proceeding last year, they have, I guess, a percentage
24 allocation that they use when it's not done, correct?

1 A They use a percentage allocation for a certain group of
2 purchased power; for the most part, for merchant kind of
3 purchases.

4 Q And are there none of those kind of purchases associated
5 in your case here?

6 A They are all included.

7 Q Okay. But you have invoices for everything?

8 A Yes.

9 Q Thank you. Nothing further.

10 CHAIRMAN SAUNDERS: Ms. Belser?

11 MS. BELSER: Thank you, Mr. Chairman.

12 CROSS-EXAMINATION BY MS. BELSER:

13 Q Good morning, Mr. Penny.

14 A Good morning.

15 Q Mr. Penny, I'm also looking at your Exhibit #1 and on
16 line 10 of your Exhibit #1, there is an expense for
17 emission allowances, is that correct?

18 A That is correct.

19 Q And are you familiar with the statute here in South
20 Carolina regarding the fuel adjustment proceeding?

21 A Yes.

22 Q And that statute allows that emission allowances to be
23 included in the calculation of the fuel cost, is that
24 correct?

1 A That's correct.

2 Q But it also states that sales of emission allowances are
3 to be subtracted. Are you familiar with that?

4 A That is correct.

5 Q Is this a net figure or did CP&L have any sales of
6 emission allowances during the test year?

7 A I believe it was a sales — during the year, the exact
8 month I am not sure but if you will look with me on page
9 two of my exhibit, the month of December on line 10
10 ,you'll see a balance there of (7.7) million. My
11 understanding is, that is the month in which we credited
12 to the fuel cost the net marginal profit from the sale of
13 the allowances during the year.

14 Q Okay. Thank you very much.

15 MS. BELSER: That's all I have, Mr.
16 Chairman.

17 CHAIRMAN SAUNDERS: Commissioners?
18 Commissioner Atkins?

19 EXAMINATION BY COMMISSIONER ATKINS:

20 Q Mr. Penny, how are you?

21 A Doing fine, thank you.

22 Q Can you help point me anywhere where we can take your
23 monthly figures on purchased power and break those out
24 into some type of a cost per megawatt hour? Is that

1 anywhere that you can point me to, or can it be done?

2 A It certainly can be done. I don't think it's in any of
3 my exhibits. There is a fuel report filed with the
4 Commission, I think monthly, that perhaps enough
5 information is there to compute it, but I'm not familiar
6 with anywhere in this filing that it's contained.

7 Q Because this purchase price per month, let's say, would
8 be the aggregate of all the purchases which might be — if
9 it's a refueling, may have been a baseload purchase, or
10 peak purchased at another time.

11 A That's correct. It would be the aggregate of short term,
12 long term, to support outages, to reflect economic
13 purchases. It would be all of those.

14 Q And each one of those invoices that Mr. Elam was talking
15 about, I mean, there's an actual purchase price per
16 megawatt-hour from every purchase y'all make out on the
17 marketplace that are all added up?

18 A Certainly on the invoice, it would be the total cost for
19 all the purchases, whether or not on the invoice it's
20 broken out by hour or by period, I'm not sure.

21 Q I'm trying to get back to my earlier question of Mr.
22 Coats — was the idea — I'm trying to come up with an
23 idea of avoided cost by category and trying to compare
24 that to some of the options that are out there, and I

1 would assume that when we hear Ms. Cherry's testimony
2 we're going to find out if you were over or under that.
3 So in particular on page two of your Exhibit 1, there's
4 some fairly high purchased power amounts in July and
5 August of 2001. What were those? Are those refuelings or
6 outages or — just to follow up on Mr. Elam's question.

7 A At this point, Commissioner, I can only tell you that to
8 the extent we had an outage there and that necessitated a
9 purchase, obviously they'd be included in the data. For
10 the most part, these would be more economic in nature or
11 long term contractual purchases.

12 Q Okay. And like, for example, from the Qualifying
13 Facility up at Broad River Power that y'all have a
14 contract with?

15 A That is correct.

16 Q Which is not a Merchant Plant, it's a Qualifying Facility
17 —at least last time I checked.

18 A Correct. It would be purchases from Broad River from
19 again, our long-term requirements from other utilities
20 and the short-term day before and during the day
21 purchases for purely economic purposes.

22 Q And again, you wouldn't have entered into that contract
23 with Broad River unless it was equal to or less than the
24 avoided cost of what y'all could have built it for?

1 A That's correct.

2 Q Okay. Thank you.

3 CHAIRMAN SAUNDERS: Mr. Austin?

4 MR. AUSTIN: We have no redirect, Mr.
5 Chairman.

6 CHAIRMAN SAUNDERS: You may step
7 down, Mr. Penny.

8 MR. AUSTIN: Mr. Chairman, that
9 completes our case.

10 CHAIRMAN SAUNDERS: Thank you, sir.
11 Ms. Belser?

12 MS. BELSER: Thank you, Mr. Chairman.
13 The Staff would call Jacqueline Cherry.

14 WHEREUPON: JACQUELINE R. CHERRY,
15 FIRST BEING DULY SWORN, ASSUMES THE STAND
16 AND TESTIFIES AS FOLLOWS:

17 DIRECT EXAMINATION BY MS. BELSER:

18 Q Would you please state your name and business address for
19 the record?

20 A Yes. My name is Jacqueline R. Cherry. My business
21 address is 101 Executive Center Drive, Columbia, South
22 Carolina.

23 Q Ms. Cherry, where are you employed and in what capacity?

24 A I'm employed by the Public Service Commission of South

1 Carolina, Audit Department, as an Auditor.

2 Q And what is the purpose of your testimony in today's
3 proceeding?

4 A The purpose of my testimony is to set forth in summary
5 form the Staff's findings and recommendations resulting
6 from our review of the Company's Fuel Adjustment Clause
7 operation for the period January 2001 through March 2002.
8 These findings and recommendations are set forth in
9 detail in Staff's Report.

10 Q And in connection with today's proceeding, did you
11 prepare and prefile with the Commission and the other
12 parties five pages of testimony in question and answer
13 format?

14 A Yes, I did.

15 Q Do you have any additions, changes or corrections to make
16 to that testimony today?

17 A No, I do not.

18 MS. BELSER: Mr. Chairman, I would ask
19 that Ms. Cherry's prefiled testimony be
20 entered into the record as if given orally
21 from the stand.

22 CHAIRMAN SAUNDERS: It will be
23 admitted as if read.

24 MS. BELSER: Thank you.

1 Q You mentioned the Staff Report. Did you prepare or have
2 prepared under your supervision Exhibits A through G as
3 contained in the Staff Report under the Audit Department
4 tab?

5 A Yes, I did.

6 Q Do you have any additions, changes or corrections to make
7 to any of those exhibits?

8 A No, I do not.

9 MS. BELSER: Mr. Chairman, I would
10 ask that the Exhibits A through G as
11 prepared by Ms. Cherry that are found in
12 the Staff Report under the Audit
13 Department tab be marked as a compiled
14 Exhibit for the purposes of this
15 proceeding and entered into the record in
16 this case.

17 CHAIRMAN SAUNDERS: It will be
18 Hearing Exhibit #4 and entered into the
19 evidence of this case.

20 [HEARING EXHIBIT #4 MARKED FOR
21 IDENTIFICATION AND ACCEPTED INTO EVIDENCE]

22 [PREFILED TESTIMONY OF
23 JACQUELINE R. CHERRY FOLLOWS]: